
Reports and Testimony: June 1996

Highlights

Federal Reserve

Among its other recommendations stemming from a review of the operations of the Federal Reserve, GAO suggests that the Fed could do more to improve cost consciousness and remedy inefficiencies that have increased its costs for travel, personnel, building acquisition, and contracting and procurement. Page 10.

Tax Systems Modernization

A year after reporting that the Internal Revenue Service's \$8 billion tax systems modernization (TSM) effort was plagued by pervasive management and technical weaknesses, a new GAO review finds that IRS has not made adequate progress in correcting TSM problems. GAO believes that Congress should consider limiting TSM expenditures. Page 20.

Executive Guide

The Government Performance and Results Act of 1993 requires federal agencies to set performance goals and to measure results. GAO's guide identifies steps that federal agencies can take toward implementing the new law as well as a series of "best practices" that can help make implementation a success. Page 2.

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DISTRIBUTION STATEMENT A

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ERRATUM

The summary of GAO's report on disability benefits (GAO/HEHS-96-62) found on page 17 of the May "Monthly List" contains an error. Cash benefits provided to recipients in 1994 were reported as totaling \$53 million. The correct figure is \$53 billion.

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Special Publications

Executive Guide: Effectively Implementing the Government Performance and Results Act

GAO/GGD-96-118, June 1996 (56 pages).

A consensus has emerged in recent years that the federal government needs to be run in a more businesslike manner. As companies are accountable to their stockholders, the federal government is accountable to taxpayers—and taxpayers are demanding as never before that the dollars they invest in their government be managed and spent responsibly. The Government Performance and Results Act of 1993 requires federal agencies to set goals and measure performance. To help Congress and federal managers implement the legislation, this guide identifies key steps that agencies need to take along with a series of “best practices” that can help make implementation a success. GAO learned of these practices from organizations that have successfully carried out initiatives similar to those required by the act. Several federal agencies have already put these practices to use, and their efforts are described in case illustrations included in the guide, which is a companion to an earlier GAO document entitled Executive Guide: Improving Mission Performance Through Strategic Information Management and Technology (GAO/AIMD-94-115). That publication outlined information management approaches that could help federal agencies improve their overall performance.

GAO Reports: Health, Education, Employment, Social Security, Welfare, and Veterans Issues

GAO/HEHS-96-159W, June 1996 (23 pages).

This monthly bibliography lists GAO documents on health, education, employment, social security, disability, welfare, and veterans issues. One section summarizes reports and testimony issued during the past month. Another section lists the titles of all documents published during the past four months, organized chronologically by subject. Order forms are included, as is a list of subject area experts who can answer questions about specific reports.

Budget and Spending

Impoundments: Comments on Proposed Rescissions of Fiscal Year 1996 Defense Budget Authority

GAO/OGC-96-10, June 10 (four pages).

On April 12, 1996, the President submitted to Congress his sixth special impoundment message for fiscal year 1996, which reports 10 proposed rescissions of budget authority affecting programs at the Defense Department. GAO reviewed the proposed rescissions and found them to be in accordance with the Impoundment Control Act.

Impoundments: Comments on Revised Deferral of Foreign Military Financing Funds

GAO/OGC-96-19, June 18 (three pages).

On May 14, 1996, the President submitted to Congress his seventh special impoundment message for fiscal year 1996, which reports one revised deferral of budget authority affecting foreign military financing funds. GAO reviewed the revised deferral and found it to be in accordance with the Impoundment Control Act.

Addressing the Deficit: Updating the Budgetary Implications of Selected GAO Work

GAO/OCG-96-5, June 28 (239 pages).

This report is part of GAO's continuing effort to help Congress identify options to reduce the deficit. It updates GAO's previous work in this area and systematically identifies the budgetary implications of selected program reforms discussed in GAO's work but not yet implemented or enacted. In this year's report, GAO updates 96 of the 120 spending reduction and revenue gain options that appeared in last year's report (GAO/OCG-95-2). Under the Budget Enforcement Act, the spending and revenue options included in this report may be used either to reduce the deficit or to free up funds for other programs. GAO analyzes the following three options: reassess objectives (reconsider whether to terminate or change the services and the programs provided), redefine beneficiaries (reconsider a program's intended population), and improve efficiency (reconsider how a program or a service should be delivered).

Testimony

Fiscal Year 1997 Budget Estimates for the U.S. General Accounting Office, by Charles A. Bowsher, Comptroller General of the United States, before the Subcommittee on Legislative Branch, Senate Committee on Appropriations. GAO/T-OCG-96-6, June 14 (21 pages).

During the past year, GAO again demonstrated its worth to Congress and the taxpayer. Agency officials testified nearly 250 times before congressional committees on issues ranging from budget savings, to waste, fraud, and abuse, to proposals for reengineering the federal government. During fiscal year 1995 alone, GAO identified financial benefits totaling nearly \$16 billion—a return of more than \$35 for every dollar appropriated for GAO. GAO's current staff of 3,700 employees—down from 5,325 in 1992—is the agency's lowest staffing level since before World War II. GAO is meeting the challenge of doing a good job even better—and doing it faster, at less cost, and with fewer people. The agency is constantly seeking to improve productivity, take advantage of modern technology, and upgrade employee skills and expertise. Concerns have been raised, however, that a lack of technical expertise could hamper GAO's ability to successfully carry out its responsibilities under the Chief Financial Officers Act and to support congressional efforts to reform the federal government's financial management systems.

Economic Development

Rural Development: Steps Toward Realizing the Potential of Telecommunications Technologies

GAO/RCED-96-155, June 14 (51 pages).

Many rural areas today are struggling to overcome serious economic and social problems, such as a lack of access to higher education, sophisticated medical treatment, and business opportunities, that have arisen because of remoteness from urban centers. Although improved roads were once seen as the key to a brighter future for rural areas, experts now believe that telecommunications technologies may prove much more crucial to fostering development. Advanced telecommunications technologies—the Internet, videoconferencing, and high-speed data transmission—offer rural areas the opportunity to overcome their geographic isolation, take advantage of expertise in other communities, improve medical services, create new jobs, and improve access to education. This report (1) identifies federal programs that rural areas can use to fund telecommunications projects; (2) identifies lessons

learned by rural areas that have used these programs to establish such projects; and (3) provides the views of experts, public and private officials, and program users on whether changes to these programs are needed.

Education

School Facilities:

America's Changing Schools Report Differing Conditions

GAO/HEHS-96-103, June 14 (105 pages).

Schools in unsatisfactory condition can be found in every part of the country. However, a GAO survey of schools nationwide found that schools needing relatively greater repairs were those in inner cities, schools in the West, schools with 50.5 percent or more minority students, and schools with 70 percent or more poor students. More than 14 million children are being taught in school buildings needing significant repairs to restore them to good overall condition. At the same time, GAO found that a new school in excellent shape, conforming to all federal, state, and local mandates, might be located only a few blocks from an operating but deteriorated school building. GAO found the greatest variations at the state level. For example, 62 percent of schools in Georgia compared with 97 percent of schools in Delaware needed repairs to restore them to good overall condition. Virtually all communities, even some of the wealthiest, are wondering how to balance school infrastructure needs with other community priorities.

School Facilities:

Profiles of School Condition by State

GAO/HEHS-96-148, June 24 (191 pages).

This report profiles the condition of school facilities in the 50 states and the District of Columbia. Each profile discusses the condition of school buildings and building features, the adequacy of environmental conditions, the extent to which facilities are meeting the functional requirements of education reform and technology, the range of funding needed to bring schools into good overall condition, and the money needed to address federal mandates for managing and correcting environmental hazards and providing access to programs for the disabled.

Testimony

Higher Education: Ensuring Quality Education From Proprietary Institutions, by Cornelia M. Blanchette, Associate Director for Education and Employment Issues, before the Subcommittee on Human Resources and Intergovernmental Relations, House Committee on Government Reform and Oversight. GAO/T-HEHS-96-158, June 6 (13 pages).

The Department of Education runs a host of student financial aid programs under title IV of the Higher Education Act of 1965. Under title IV, the federal government made about \$35 billion available in fiscal year 1995 to about seven million students pursuing postsecondary education. This testimony discusses "gatekeeping"—the process of ensuring that only schools providing quality education and training have access to title IV funds. GAO (1) lays out an overview of the regulatory framework for title IV programs and (2) provides its preliminary observations on proprietary schools.

Employment

Testimony

Davis-Bacon Act: Process Changes Could Address Vulnerability to Use of Inaccurate Data in Setting Prevailing Wage Rates, by Carlotta C. Joyner, Director of Education and Employment Issues, before the Subcommittee on Oversight and Investigations and the Subcommittee on Workforce Protections, House Committee on Economic and Educational Opportunities. GAO/T-HEHS-96-166, June 20 (11 pages).

The Congressional Budget Office estimates that in fiscal year 1996, the federal government will spend \$42 billion on construction contracts. Given the magnitude of these expenditures, inaccurate wage determinations could lead to excessive government construction costs or to large numbers of workers being paid wages and fringe benefits that are lower than required by law. GAO testified that vulnerabilities exist in the Labor Department's current wage determination process that could result in wage determinations being based on fraudulent or otherwise inaccurate data. GAO urges Labor to improve immediately its process to verify wage data submitted by employers.

Energy

Energy Downsizing: While DOE Is Achieving Budget Cuts, It Is Too Soon to Gauge Effects

GAO/RCED-96-154, May 13 (14 pages).

Recognizing the need for a smaller, less costly government, the Energy Department (DOE) last year unveiled its Strategic Alignment and Downsizing Initiative, which is intended to save \$1.7 billion over five years. The savings planned under the Initiative are on target. By amending its fiscal year 1996 budget request and selling excess assets, DOE will reach its goal of \$221 million in savings this year. DOE is depending on process improvements and reengineering efforts to fulfill its missions under the reduced budgets called for by the Initiative. It is too soon to know, however, whether DOE will cut costs to the extent planned in its budget reductions. Moreover, some overly optimistic initial reports of cost savings underscore the need for DOE to be vigilant in validating such claims, lest managers believe that those savings are occurring in specific activities when, in fact, targeted reductions are being absorbed elsewhere. Discussions with DOE officials revealed opportunities to achieve further cost savings by more broadly applying some aspects of the Initiative. For example, DOE could encourage its contractors to sell more of the agency's excess assets by providing incentives and policies for the contractors to identify and sell them. GAO summarized this report in testimony before Congress; see:

Department of Energy: Progress Made Under Its Strategic Alignment and Downsizing Initiative, by Bernice Steinhardt, Associate Director for Energy, Resources, and Science Issues, before the Subcommittee on Energy and Power, House Committee on Commerce. GAO/T-RCED-96-197, June 12 (six pages).

Nuclear Waste: Greater Use of Removal Actions Could Cut Time and Cost for Cleanups

GAO/RCED-96-124, May 23 (22 pages).

Since 1989, the Energy Department (DOE) has received about \$10 billion to clean up more than 10,000 waste sites nationwide that contain everything from highly radioactive waste to common industrial chemicals and solvents. So far, much of the money has gone to study waste sites and

develop an approach for their remediation, rather than for actual cleanup. DOE has been criticized for its lack of progress in remediation at the same time as its appropriations for environmental restoration have declined. In some cases, DOE has successfully placed more emphasis on remediation and less on planning by using "removal actions," which shorten or eliminate some of the steps normally required before remediation can begin. Removal actions have been used for treating groundwater and surface water, excavating and disposing of contaminated soil, and leaving waste in place and covering it with a protective barrier. Removal actions have also been used at federal facilities to deal with emergencies, such as removing leaking barrels that threatened to contaminate the Columbia River. GAO concludes that more extensive use of removal actions would speed the planning process and allow DOE to devote more environmental restoration dollars to site remediation. GAO recognizes that not every waste site is appropriate for the abbreviated planning that takes place under removal actions; however, the successful use of removal actions at a variety of environmental restoration sites throughout the DOE complex suggests that additional opportunities exist to employ this cost- and time-saving approach.

Testimony

Federal Downsizing: Delayed Buyout Policy at DOE Is Unauthorized, by Henry R. Wray, Senior Associate General Counsel, before the Subcommittee on Civil Service, House Committee on Government Reform and Oversight. GAO/T-GGD/OGC-96-132, June 11 (11 pages).

The Federal Workforce Restructuring Act authorized federal agencies to offer "buyouts" to employees who retired or resigned from the government before April 1, 1995. The legislation contained an exception that allowed the payment of a buyout to an employee as late as March 31, 1997, if the agency head determined that such a delay was essential to the agency's mission. The General Counsel at the Department of Energy (DOE) concluded in a July 1995 memorandum that the act did not preclude DOE from offering buyouts to employees who had not applied for them before April 1, 1995. He further stated that a determination by the Secretary of Energy to "conditionally approve" delayed buyouts for all DOE employees in broad job categories who applied before April 1, 1995, was permitted to later be amended to cover employees who had not filed buyout applications before that date. GAO disagrees with the General Counsel's position. GAO believes that the plain language of the act, as well as the fundamental logic and underlying context of the statute, clearly require that determinations to invoke the exception and permit delayed separation

must be made in conjunction with approval of the buyouts themselves. In GAO's view, the authority of agencies to approve buyouts ended on March 31, 1995. The legislative history of the act supports this opinion.

Environmental Protection

Superfund: Barriers to Brownfield Redevelopment

GAO/RCED-96-125, June 17 (15 pages).

In recent decades, the decline of manufacturing in many cities has left a legacy of abandoned and idled factories commonly known as "brownfields," which are sometimes contaminated with hazardous wastes. The high cost of cleaning the sites up in accordance with federal and state environmental laws has deterred some new businesses from locating in brownfields, which, in turn, has deprived inner city neighborhoods of tax revenue and employment opportunities. Lenders and developers are often wary of investing in such contaminated property because under the environmental laws, they could be liable for cleaning up the contamination. Proposed legislation (S. 1285) would encourage local governments to redevelop brownfields by addressing two barriers to redevelopment: liability under the Superfund legislation and the costs to assess sites. The bill would protect lenders and property purchasers from some Superfund liability and would help with the costs of assessing the sites by providing interest-free loans of \$100,000 per year, up to a total of \$200,000 per site, that local governments would be permitted to use to cover these costs. This report discusses (1) what the universe of potential brownfield sites is nationwide, (2) what legal barriers Superfund presents for redeveloping brownfields, and (3) whether the proposed loans to local governments are likely to be enough for conducting site assessments.

Chemical Accident Safety: EPA's Responsibilities for Preparedness, Response, and Prevention

GAO/PEMD-96-3, June 27 (48 pages).

More than a decade ago, a chemical spill in Bhopal, India, killed or injured thousands and displaced many more from their homes and businesses. The magnitude of this event, along with the potential for similar accidents in the United States, resulted in legislation that gave the Environmental Protection Agency (EPA) a central role in implementing chemical accident safety policy. GAO found that EPA had vigorous programs for accident

preparedness and response. Recent legislation, however, has shifted the agency's primary focus to preventing chemical accidents. Through risk management planning, EPA has undertaken several efforts to further the prevention of accidents, including collaboration with industry and professional associations. EPA has developed a large repository of information on accident prevention. A major barrier to preventing accidents, though, remains the relative lack of involvement of community residents and some industry sectors. To maximize the potential for accident prevention, information that facilitates prevention must be made available and used by industry and communities.

Financial Institutions

Federal Reserve System: Current and Future Challenges Require Systemwide Attention

GAO/GGD-96-128, June 17 (154 pages).

The mission, the structure, and especially the finances of the Federal Reserve System, the nation's central bank, make it unique among government entities. Unlike federal agencies funded through congressional appropriations, the Fed is self-funded, deducting its expenses from its revenue and transferring the remainder to the U.S. Treasury. Although the Fed's primary mission is to support a stable economy, not to maximize the amount transferred to the Treasury, deductions from Fed revenues do represent a cost to taxpayers. Because of continuing federal budget constraints, Members of Congress requested GAO to analyze the Fed's finances. This report (1) examines trends in the cost of Fed operations from 1988 to 1994 and its controls over spending and operations, (2) identifies ways to increase the Fed's efficiency without harming its effectiveness, (3) discusses developments that could significantly affect the Fed's mission and finances, and (4) assesses the Fed's strategic management processes and identifies steps that it could take to meet future challenges and ensure the efficiency and the effectiveness of its operations.

Initial Public Offerings: Guidance Needed on Disclosure of Underwriters' Disciplinary Histories

GAO/GGD-96-5, June 6 (23 pages).

Initial public offerings (IPO)—the sale of a company's stock to the public for the first time—are a major source of funding for new companies seeking to raise capital. According to the Securities and Exchange Commission (SEC), companies raising money through IPOs registered securities worth nearly \$26 billion in 1994. Companies typically use underwriters to help them register the IPOs with SEC and raise equity capital from the investment community. The press has reported instances in which underwriters gave some investors preferential access to the IPO market and companies did not disclose material information to investors, such as the criminal and disciplinary histories of their underwriters. This report discusses (1) the factors that influence underwriters to sell IPO shares to institutional investors or to individuals and (2) disclosure requirements concerning the history of disciplinary actions taken against underwriters. GAO also discusses SEC rules governing the IPO market.

Testimony

Housing Enterprises: Potential Impacts of Severing Government Sponsorship, by James L. Bothwell, Director of Financial Institutions and Markets Issues, before the Subcommittee on Capital Markets, Securities, and Government Sponsored Enterprises, House Committee on Banking and Financial Services. GAO/T-GGD-96-134, June 12 (nine pages).

Privatizing Fannie Mae and Freddie Mac could have a major impact on these two government-sponsored housing enterprises, American homebuyers and taxpayers, and mortgage markets in general. Privatization could (1) substantially increase the enterprises' costs of operations and lower profits because of greater competition from other financial firms; (2) raise interest rates on mortgages below \$207,000, with as much as \$25 a month in additional payments on a typical mortgage of \$100,000 and relatively higher increases for homebuyers representing higher default risks; (3) boost competition in the mortgage markets, which GAO believes will likely prevent the reappearance of significant regional disparities in mortgage credit; and (4) decrease taxpayers' risk exposure to enterprise obligations. GAO also assesses several more-limited policy options, such as imposing a fee on the enterprises to compensate taxpayers for their risk exposure. Each option entails benefits and risks that need to be carefully considered.

Bank Mutual Funds: Improvements in Risk Disclosure Needed, by James L. Bothwell, Director of Financial Institutions and Markets Issues, before the Subcommittee on Capital Markets, Securities and Government Sponsored Enterprises, House Committee on Banking and Financial Services. GAO/T-GGD-96-141, June 26 (13 pages).

In recent years, sales of mutual funds through banks and savings and loans have soared. According to information reported to the Federal Deposit Insurance Corporation (FDIC), about 2,800 banks sold more than \$40 billion in mutual fund shares during 1995 alone. Because it is well-known that bank and thrift deposits are federally insured, customers buying investment products from banks and thrifts need to understand the difference between FDIC-insured investments, such as money market deposit accounts, and uninsured investments, such as money market mutual funds. In early 1994, FDIC, the Office of the Comptroller of the Currency, the Federal Reserve, and the Office of Thrift Supervision jointly issued guidelines to banks and thrifts requiring that customers be fully informed of the risks of investing in nondeposit investment products. The guidelines also call for the mutual fund sales areas in financial institutions to be physically separated from the deposit-taking areas. In 1995, GAO reported that many banks and thrifts were not adequately informing potential investors of the risks of investing in mutual funds. GAO based this conclusion on the results of its "secret shopper" visits to 89 banks and thrifts in 12 cities in 1994. GAO also found that more than one-third of the institutions did not clearly separate the mutual fund sales areas from the deposit-taking areas. This testimony focuses on FDIC surveys that reaffirm GAO's findings on banks' and thrifts' inadequate disclosure of the risks associated with investing in mutual funds.

Financial Management

Financial Management: DOD Needs to Lower the Disbursement Prevalidation Threshold

GAO/AIMD-96-82, June 11 (22 pages).

Because of continuing problems with disbursements, the Defense Department (DOD) is now required to match disbursements above a certain amount with the appropriate obligation in its accounting records before making the disbursement—a process known as disbursement prevalidation. GAO found that prevalidation allowed DOD to spot errors and prevent problem disbursements from being recorded in its accounting records. However, unless the \$5 million threshold is lowered at the Defense Finance and Accounting Service's center in Columbus, Ohio, and

the \$1 million threshold is lowered at the other payment centers, tens of billions of dollars in transactions will continue to bypass this important control. Until a detailed plan is developed to ensure that all payments are properly prevalidated before taxpayer dollars are disbursed, the full benefits of prevalidations will not be realized. More importantly, even at its best, prevalidation will not solve the military's disbursement problems, as evidenced by nearly \$22 billion worth of new problem disbursements that surfaced between October 1995 and January 1996. Prevalidation seeks to impose quality near the end of the disbursement process. As a result, it does not address the root problems inherent in poor systems and processes, as well as failure to use basic internal controls. DOD needs to (1) overcome weaknesses in control procedures that enable problem disbursements to occur and (2) improve its contract pay, disbursing, and accounting processes and systems.

Testimony

Financial Audit: Actions Needed to Improve IRS Financial Management, by Gregory M. Holloway, Director of Governmentwide Audits, before the Senate Committee on Governmental Affairs. GAO/T-AIMD-96-96, June 6 (27 pages).

This testimony discusses GAO's financial audits of the Internal Revenue Service (IRS). As part of a pilot program under the Chief Financial Officers Act of 1990, IRS began preparing annual financial statements on the results of its operations. GAO's audits cover fiscal years 1992-95. Implementation of the legislation has (1) given IRS top management greater understanding of the agency's serious and pervasive accounting and reporting problems, (2) yielded information on the magnitude of IRS' tax receivables collection problems, and (3) underscored the need for stronger controls in such areas as payroll operations. The legislation has also spurred efforts to improve IRS operations and address the major problems cited by GAO financial audits. However, GAO has been unable to express an opinion on the reliability of IRS' financial statements for any of the four fiscal years it has audited the agency. This testimony describes in detail the fundamental, persistent problems that remain uncorrected and will prevent GAO from expressing an opinion on IRS's financial statements in the future.

Financial Management: Interior's Efforts to Reconcile Indian Trust Fund Accounts and Implement Management Improvements, by Linda M. Calbom, Director of Civil Audits, before the Senate Committee on Indian Affairs. GAO/T-AIMD-96-104, June 11 (14 pages); and

Financial Management: Interior's Management of the Indian Trust Funds, by Linda M. Calbom, Director of Civil Audits, before the House Resources Committee Task Force on Indian Trust Fund Management. GAO/T-AIMD-96-111, June 18 (15 pages).

Although the Interior Department has brought to a close its project to reconcile the Indian trust funds, tribal accounts were never fully reconciled because of missing records and the lack of an audit trail in Interior's automated accounting systems. In addition, the 1996 report package that Interior provided to each tribe on the reconciliation results did not explain or describe the many changes in reconciliation scope and methodologies or the procedures that had been planned but were not implemented. As a result, the limitations of the reconciliation were not evident. Also, because of cost considerations and the potential for missing records, individual Indian trust fund accounts were not included in the reconciliation project. Indian tribes have raised concerns about the scope and the results of the reconciliation process. The vast majority of tribes have yet to decide whether to accept or dispute their account balances. If Interior cannot resolve the tribes' concerns, a legislated settlement process could be used to settle disputes over account balances. Interior has taken steps during the past three years to correct these long-standing problems with the accuracy of the Indian trust fund accounts, but these efforts will take years to complete. Moreover, the existing trust fund management and accounting systems cannot ensure accurate trust fund accounting and asset management. The appointment of a Special Trustee for American Indians was an important step in establishing high-level leadership at Interior for Indian trust fund management.

Government Operations

Concessions Contracting: Governmentwide Rates of Return

GAO/GGD-96-86, Apr. 29 (44 pages).

Under concessions agreements with federal agencies, private firms and other entities, such as local governments, supply many of the services and accommodations available to the public on federal property. Concessions services include food operations, vending machines, retail shops, pay telephones, barber and beauty shops, lodgings, marinas, and campgrounds. This report discusses (1) the extent of concessions operations in the federal government; (2) the rate of return to the federal government from these operations and the factors affecting the rate of

return; (3) how the rate of return from federal concessions compared with rates earned by other governments; and (4) the extent of agencies' income-generating operations that were not concessions and whether they offered opportunities for the agencies to handle them as concessions. GAO provides detailed information collected from 75 federal agencies, including one Defense Department component—the Department of the Army Corps of Engineers.

**Management Reform:
Completion Status of Agency Actions Under the National
Performance Review**

GAO/GGD-96-94, June 12 (83 pages).

The National Performance Review (NPR)—the administration's central management reform effort—issued a report in 1993 containing 384 recommendations intended to make the government “work better and cost less.” NPR later identified 1,203 action items needed to implement these recommendations. In a 1995 report, NPR said that nearly one-third, or 380, of the action items had been completed. GAO verified that 294, or 77 percent, of the 380 action items had been completed. GAO also determined that 66 action items had not been completed but that all but one of them had been partially implemented or some steps had been taken to begin implementation. GAO could not make determinations for 20 of the action items because of a lack of information.

**The Federal Judiciary:
Reviews of Court Operations Should Adhere to
Oversight Standards**

GAO/GGD-96-114, June 17 (25 pages).

As it seeks to reduce federal expenditures and balance the budget, Congress expects all federal agencies to cut operating costs wherever possible. The effort to keep costs down has focused attention on whether the federal judiciary is operating as efficiently and effectively as possible. This report reviews the internal oversight of administrative operations within the federal judiciary, including those of local courts. Specifically, GAO examines how the Administrative Office of the U.S. Courts assessed the efficiency of local court operations and promoted the use of efficient administrative practices within the judiciary.

Testimony

Paperwork Reduction: Burden Reduction Goal Unlikely to Be Met, by Michael Brostek, Associate Director for Federal Management and Workforce Issues, and Peter F. Guerrero, Director of Environmental Protection Issues, before the Senate Committee on Small Business. GAO/T-GGD/RCED-96-186, June 5 (26 pages).

The paperwork burden that the federal government imposes on the public has increased significantly since 1980. Under the Paperwork Reduction Act of 1995, the Office of Management and Budget (OMB) is required to seek at least a 10-percent reduction in the governmentwide paperwork burden in fiscal year 1996 and to set reduction goals for each agency. This testimony discusses the following issues: (1) what changes in the paperwork burden have occurred governmentwide and at the Internal Revenue Service, the Environmental Protection Agency, and the Occupational Safety and Health Administration; (2) what OMB's responsibility to set goals for reducing the burden is, and whether agencies will achieve the reductions envisioned by the legislation; and (3) what actions each of the three agencies has taken since the act's passage. GAO also discusses measurement issues that Congress should consider as it assesses agencies' progress in reducing the paperwork burden.

Health

Cholesterol Treatment: A Review of the Clinical Trials Evidence

GAO/PEMD-96-7, May 14 (107 pages).

Clinical trials and other scientific studies have consistently shown that cholesterol-lowering treatment benefits middle-aged white men with high cholesterol levels and a history of heart disease. Medical research also shows that men with moderate-to-high cholesterol levels and no history of heart disease have lower rates of nonfatal heart attacks but no statistically significant reductions in death rates as a result of cholesterol-lowering treatment. Clinical trials generally have not evaluated the value of cholesterol-lowering treatment for several important groups, including women, the elderly, and minorities. Thus, they provide little or no evidence of benefits or possible risks for these groups. Two recent trials using a new drug class—the statins—show greater reductions in heart problems with their greater reductions in cholesterol and no increase in fatalities from coronary heart disease. One trial studied men and women with coronary heart disease and found a significant reduction in total

fatalities; the other, which studied only men who did not have coronary heart disease, showed encouraging but not statistically significant reductions in fatalities from coronary heart disease.

**Cocaine Treatment:
Early Results From Various Approaches**

GAO/HEHS-96-80, June 7 (34 pages).

Three cognitive/behavioral approaches—relapse prevention, community reinforcement/contingency management, and neurobehavioral therapy—have shown positive results in the treatment of cocaine addiction. Preliminary findings show that clients treated with these therapies remained abstinent and in treatment for long periods. These findings are particularly encouraging because initial treatments used during the early 1980s were not very successful. Although too few studies have been done to draw definite conclusions about the utility or the generalizability of any of these treatments, more research should be completed within the next several years. Research experts agree that continued research and study are needed to enhance and confirm—or deny—these early results.

**Health Insurance for Children:
Private Insurance Coverage Continues to Deteriorate**

GAO/HEHS-96-129, June 17 (28 pages).

Despite larger numbers of parents who work full-time, private health insurance coverage for children is declining. The number of children without health insurance coverage reached 10 million in 1994—the largest number since 1987. In comparison, the number of adults who have lost their health insurance coverage appears to have stabilized during the past two years. Meanwhile, although Medicaid provided health coverage for 16 million children in 1994, more than 60 percent of those children had a working parent. This trend is straining public resources: Taxpayers end up paying either for Medicaid coverage or for hospital subsidies to provide acute care for the uninsured. In response to rising Medicaid costs, state and local governments are considering various program changes, some of which have profound implications for health care coverage for children, such as proposals to remove guaranteed eligibility. Other changes that strengthen the private insurance market may also significantly affect children's future coverage.

Housing

Testimony

Housing and Urban Development: Comments on HUD's Fiscal Year 1997 Budget Request, by Judy A. England-Joseph, Director of Housing and Community Development Issues, before the Subcommittee on VA, HUD, and Independent Agencies, House Committee on Appropriations. GAO/T-RCED-96-205, June 17 (20 pages).

This testimony addresses the Department of Housing and Urban Development's (HUD) fiscal year 1997 budget request. By continuing to improve its internal management and coming to closure on how and when it will use the market to eliminate excess subsidy costs and improve the poor physical condition of its public housing, HUD will be in a better position to use additional appropriations and implement new policy. Although HUD recognizes many of its management shortcomings and has budgeted funds to correct them, GAO views this as a long-term effort that will continue into the foreseeable future. In particular, GAO discusses (1) HUD's multifamily reengineering estimates, (2) proposed bonus pools for high-performing participants in four of HUD's six proposed block grants to consolidate existing programs, and (3) HUD's progress in addressing management deficiencies cited in GAO's 1995 high-risk report. (See GAO/HR-95-11.)

Multifamily Housing: HUD's Proposals for Reengineering Its Insured Section 8 Portfolio, by Judy A. England-Joseph, Director of Housing and Community Development Issues, before the Subcommittee on Housing Opportunity and Community Development, Senate Committee on Banking, Housing, and Urban Affairs. GAO/T-RCED-96-210, June 27 (17 pages).

Proposals before Congress would reengineer about 8,600 properties from the Department of Housing and Urban Development's (HUD) multifamily rental housing portfolio. These 8,600 properties, known as the insured Section 8 portfolio, receive mortgage insurance from HUD and Section 8 rental subsidies tied directly to the properties. This testimony discusses HUD's proposed resolution process. In addition to providing background information on the insured Section 8 portfolio, GAO discusses (1) problems currently affecting the portfolio, (2) HUD's plans for addressing these problems, (3) a HUD-contracted study by Ernst & Young LLP that estimates how the properties are likely to be affected by HUD's reengineering

proposal, and (4) its preliminary assessment of the Ernst & Young study. GAO also comments on HUD's portfolio reengineering initiative.

Income Security

Testimony

Social Security: Disability Programs Lag in Promoting Return to Work, by Jane L. Ross, Director of Income Security Issues, before the Senate Special Committee on Aging. GAO/T-HEHS-96-147, June 5 (16 pages).

Each week, the disability insurance and supplemental security income programs make more than \$1 billion in cash payments to persons with disabilities. Although these payments provide a measure of income security, they do little to enhance the work capacities and promote the economic independence of recipients. Societal attitudes have shifted, and current law, such as the Americans With Disabilities Act, promotes economic self-sufficiency among the disabled. A growing number of private companies are exploring ways to return people with disabilities to the workforce. Moreover, medical advances and new technologies provide greater opportunities for people with disabilities to work. This testimony discusses how the structure of the disability insurance and supplemental security income programs impede return to work and how strategies used in other disability systems could help restructure the programs to encourage recipients to return to work.

Social Security: Union Activity at the Social Security Administration, by Jane L. Ross, Director of Income Security Issues, before the Subcommittee on Social Security, House Committee on Ways and Means. GAO/T-HEHS-96-150, June 4 (17 pages).

Union activities at federal agencies can range from representing employees in complaints against management to bargaining over changes in working conditions to negotiating union contracts with management. The government pays its workers' salaries and expenses for the time they are allowed to spend on union activities; it also provides other support, such as supplies and some travel expenses. The Social Security Administration (SSA), like other federal agencies and some private sector firms, pays for approved time spent by its employees on union activities. To ensure accurate tracking of time spent on union activities and the staff conducting them, SSA has developed and is testing a new time-reporting

system for its field offices and teleservice centers. GAO believes that the new time-reporting system should be implemented agencywide, including at headquarters, program service centers, the Office of Hearing and Appeals, and units now using the less reliable manual reporting system. With an improved agencywide system, SSA should have better information on where its resources are being spent.

Information Management

Tax Systems Modernization: Actions Underway but IRS Has Not Yet Corrected Management and Technical Weaknesses

GAO/AIMD-96-106, June 7 (29 pages).

GAO reported last year that the government's \$8 billion tax systems modernization effort was plagued by pervasive management and technical weaknesses. Although the Internal Revenue Service (IRS) has taken steps to overcome these shortcomings, none of these actions, either individually or collectively, fully satisfy GAO's recommendations, and it is unclear when these actions will result in disciplined systems development. The upshot is that IRS continues to spend hundreds of millions of dollars on tax systems modernization even though fundamental weaknesses jeopardize that investment. IRS now plans to use a prime contractor and increase its use of software development contractors to develop tax systems modernization. However, its plans and schedules in this area are poorly defined and cannot be fully understood or assessed. Moreover, as the experience with Cyberfile and the Document Processing System projects makes clear, IRS does not have the mature processes needed to acquire software and manage contractors effectively.

Telecommunications: FTS 2000 Cost Comparison

GAO/AIMD-96-95, May 31 (61 pages).

This report identifies agencies that are using the Federal Telecommunications System (FTS 2000) and compares telecommunications costs of agencies that use FTS 2000 with those of agencies that do not. GAO focuses on four FTS 2000 services: switched voice and dedicated transmission, which constitute the bulk of FTS 2000 use, and packet switched and compressed video transmission. As of March 1996, 139 agencies and other government entities were using telecommunications

services provided under the FTS 2000 contracts. GAO's comparison of telecommunications costs incurred by a sample of agencies that use non-FTS 2000 networks with what FTS 2000 would cost produced mixed results, with some costs comparable, some less, and others more.

**Software Capability Evaluation:
VA's Software Development Process Is Immature**

GAO/AIMD-96-90, June 19 (34 pages).

GAO reviewed the development of computer software at the Veterans Benefits Administration (VBA) and at the Department of Veterans Affairs' Austin Automation Center. Neither VBA nor the Austin Automation Center had satisfied any of the key process areas required for a level 2 capability, as described by the Software Engineering Institute's five-level software capability model. Under a level 2 capability, basic project management processes are established to track cost, schedule, and functionality. Moreover, the necessary process discipline is in place to repeat earlier successes on projects with similar applications. The upshot is that the Department of Veterans Affairs (VA) has little assurance that (1) investments in new software development will achieve their objectives or (2) software will be delivered consistent with cost and schedule estimates. GAO recommends that VA delay any major investment in software development beyond what is needed to sustain critical day-to-day operations until the repeatable level of process maturity is achieved. VA should also obtain expert advice on how to improve the ability of VBA and the Austin Automation Center to develop high-quality software, develop a strategy to reach the repeatable level of process maturity, implement that strategy quickly, and ensure that any future contracts for software development require that the contractor have a software development capability of at least level 2.

Testimony

Veterans Benefit Modernization: Management and Technical Weaknesses Must Be Overcome If Modernization Is to Succeed, by Gene L. Dodaro, Assistant Comptroller General for Accounting and Information Management, before the Subcommittee on Compensation, Pension, Insurance, and Memorial Affairs, House Committee on Veterans' Affairs. GAO/T-AIMD-96-103, June 19 (15 pages).

If the Veterans Benefits Administration is to reduce operating costs and improve critical service to nearly 27 million veterans and their dependents,

it needs to streamline its business processes and take more advantage of information technology. However, VBA is experiencing many of the classic management and technical problems that have prevented federal agencies from reaping the benefits of substantial investment in information technology. This testimony discusses the steps VBA needs to take in the following three areas to improve its chances for success: (1) creating a credible business strategy and supporting an information resources management plan; (2) developing a better investment strategy for choosing and managing its portfolio of information technology projects in a more disciplined, businesslike way; and (3) strengthening its technical ability to develop software applications that are critical to its efforts to control costs and improve service to veterans.

International Affairs

U.S. Information Agency: Issues Related to Reinvention Planning in the Office of Cuba Broadcasting

GAO/NSIAD-96-110, May 13 (27 pages).

This report examines the operations of the Office of Cuba Broadcasting and Radio Marti, which are part of the U.S. Information Agency (USIA). GAO provides information on (1) the Office of Cuba Broadcasting's reinvention plan, (2) the role and use of the Office's research analysts, (3) the reasons for the resignation of Mr. Richard Lobo as Director of the Office, and (4) any progress that has been made in monitoring Radio Marti's compliance with Voice of America broadcast standards. GAO also discusses key events and time frames concerning USIA's Office of Inspector General investigation into allegations of management reprisals in the Office of Cuba Broadcasting.

Canada, Australia, and New Zealand: Potential Ability of Agricultural State Trading Enterprises to Distort Trade

GAO/NSIAD-96-94, June 24 (80 pages).

The agricultural agreements of the Uruguay Round of the General Agreements on Tariffs and Trade (GATT) seek to establish a fair and market-oriented agricultural trading system. Through progressive reductions in governmental support and export subsidies, conversion of quotas to tariffs, lowering of barriers to import access, and other reforms,

member nations hope to reduce distortions in world agricultural markets. Some member states are using state trading enterprises (STE) to regulate imports and exports. STEs are authorized to engage in trade and are owned, sanctioned, or otherwise supported by the government. Although STEs are legitimate trading entities and are subject to GATT regulations, some U.S. agricultural producers are concerned that STEs, through their monopoly powers and government support, may be able to distort worldwide trade in their respective commodities. This report reviews state trading enterprises in Canada, Australia, and New Zealand. GAO focuses on the activities of the Canadian Wheat Board, the Australian Wheat Board, and the New Zealand Dairy Board. GAO discusses whether the boards are capable of distorting world markets in their respective commodities.

Testimony

State Department: Millions of Dollars Could Be Generated by Selling Unneeded Overseas Real Estate, by Benjamin F. Nelson, Director of International Relations and Trade Issues, before the Subcommittee on International Operations and Human Rights, House Committee on International Relations. GAO/T-NSIAD-96-195, June 27 (13 pages).

The State Department owns millions of dollars worth of overseas properties that are unneeded or too expensive to maintain. Proper management of State's overseas property could generate considerable revenue for higher priority uses. GAO recommends that State convene an independent panel to review and suggest the sale of excess property. In GAO's view, such a panel could help reduce the current property inventory and ensure proper management in the future. Further, to expeditiously resolve disagreements between the Office of Foreign Buildings Operations (FBO) and the embassies, GAO recommends that State prepare annual reports identifying all excess properties whose sale FBO and the embassies cannot agree on. GAO also suggests that State improve its accounting and reporting on the use of sales proceeds.

Justice and Law Enforcement

Drug Control: Counternarcotics Efforts in Mexico

GAO/NSIAD-96-163, June 12 (29 pages).

Hampered by declining U.S. funding, staff cutbacks, and corruption among key Mexican institutions, drug interdiction efforts in Mexico have failed to stem the flow of illegal drugs reaching the United States. Mexico remains

the primary transit route for cocaine, heroin, marijuana, and methamphetamine smuggled into this country. U.S. narcotics activities in Mexico and the transit zone have declined since 1992. U.S. funding for counternarcotics efforts in the transit zone and Mexico fell from \$1 billion in fiscal year 1992 to \$570 million in fiscal year 1995. Moreover, since 1992, direct U.S. assistance to Mexico has been negligible because of Mexico's 1993 policy of refusing most U.S. counternarcotics assistance. Staffing reductions in the State Department's Narcotics Affairs Section at the U.S. Embassy in Mexico City have limited monitoring of earlier U.S. assistance, mainly helicopters and spare parts. Since GAO's June 1995 testimony before Congress (GAO/T-NSIAD-95-182), the U.S. embassy has elevated drug control issues in importance and has developed a drug control operating plan with measurable goals; the Mexican government has indicated a willingness to develop a mutual counternarcotics assistance program and has taken action on important law enforcement and money laundering legislation; and the United States and Mexico have created a framework for greater cooperation and are expected to develop a joint counternarcotics strategy by the end of the year. Following through on these efforts is critical to combatting drug trafficking in Mexico. GAO summarized this report in testimony before Congress; see:

Drug Control: Observations on Counternarcotics Efforts in Mexico, by Benjamin F. Nelson, Director of International Relations and Trade Issues, before the Subcommittee on National Security, International Relations and Criminal Justice, House Committee on Government Reform and Oversight. GAO/T-NSIAD-96-182, June 12 (10 pages).

**Sex Offender Treatment:
Research Results Inconclusive About What Works to
Reduce Recidivism**

GAO/GGD-96-137, June 21 (23 pages).

GAO's examination of the research literature found 22 reviews of the effectiveness of treatment programs for sex offenders. The reviews discussed both treatment effectiveness and methodological adequacy. There was no consensus among the reviews as to what treatment works to reduce the recidivism of sex offenders. The cognitive-behavioral approach was most often cited as promising, particularly with child molesters and exhibitionists. Because of methodological limitations in the studies, however, a quantitative estimate of the impact of cognitive-behavioral treatment on recidivism was not attempted in these reviews.

Psychotherapy was generally viewed as ineffective except, in some cases, when administered in combination with another treatment approach. Nearly all the reviews reported that definitive conclusions could not be drawn because methodological weaknesses in the research made inferences about what works uncertain. There was no consensus that more and better research was needed to demonstrate the effectiveness of sex offender treatment.

National Defense

Concessions Contracting: DOD Military Exchange Services' Rates of Return

GAO/GGD-96-108, May 9 (seven pages).

This report provides information on concessions contracting in the Defense Department's (DOD) three military exchange services. Concessions generally are businesses that use government property to deliver services to the public or specific individuals and share the profits with the government. The military exchanges have a dual mission: they provide patrons with articles and services necessary for their health, comfort, and convenience and are a source of funding for DOD morale, welfare, and recreation programs. GAO discusses (1) the extent of centrally managed concessions operations in DOD's military exchange services, (2) the rate of return from centrally managed concessions operations and factors that affected the rate of return, and (3) how the exchange services' rates of return compared to other agencies or governments' rates of return from concessions.

Defense Infrastructure: Costs Are Projected to Increase Between 1997 and 2001

GAO/NSIAD-96-174, May 31 (eight pages).

GAO analyzed the infrastructure portion of the Defense Department's (DOD) 1997 Future Years Defense Program, which covers fiscal years 1997-2001, and found that infrastructure costs are projected to rise from \$146 billion in 1997 to \$155 billion in 2001. Although the infrastructure portion of DOD's budget is projected to decrease from 60 percent in 1997 to 57 percent in 2001, this is primarily because the total military budget is expected to increase at a faster rate than the infrastructure portion. The installation support portion of DOD's infrastructure budget is projected to decline between 1997 and 2001, but all other categories of infrastructure are

projected to increase. The combination of operation and maintenance and military personnel appropriations fund about 80 percent of infrastructure activities that can be clearly identified in the Future Years Defense Program. The upshot is that DOD must look to these two appropriations if it plans to spend less on infrastructure activities.

**Operation and Maintenance Funding:
Trends in Army and Air Force Use of Funds for Combat Forces
and Infrastructure**

GAO/NSIAD-96-141, June 4 (49 pages).

The Secretary of Defense contends that the Defense Department (DOD) must increase its procurement funding if it is to have a modern future force. The Secretary wants to reform the acquisition process and streamline infrastructure to pay, in part, for force modernization. DOD now expects decreases in its operation and maintenance account and increases in its procurement account beginning in fiscal year 1998. This report reviews how the Army and the Air Force obligated their annual operation and maintenance account funds and compares their obligations to what was requested in the President's budgets. GAO determines what part of total obligations was used for infrastructure activities as opposed to combat force. The Navy is not included in this review because, at the headquarters level, it does not maintain the level of budget request and obligation data that GAO needed for its analysis.

**Navy Ship Propulsion:
Viability of New Engine Program in Question**

GAO/NSIAD-96-107, June 7 (25 pages).

Although the Navy has spent more than four years and nearly \$225 million in a joint venture with the British and French to develop a new gas turbine ship propulsion system, the effort has encountered serious problems in development. Navy officials have raised many questions about the new engine, including the practicality of using it in the DDG-51 destroyer. They also have concerns about whether the new engine will provide a viable and timely return on the large investment to develop it. GAO urges the Pentagon to reassess the need for this program. As the Navy restructures the engine development program, it must decide how and if it will use the \$5.4 million test facility that it built in Philadelphia. The Navy now plans to conduct almost all of its engine testing at a test site in the United Kingdom.

The Navy must also decide whether to test the engine at sea in a pilot ship. The cost to do so is estimated as high as \$12.5 million.

Basic Training:

Services Are Using a Variety of Approaches to Gender Integration

GAO/NSIAD-96-153, June 10 (13 pages).

The military services are using various approaches to integrate men and women during basic training. These approaches range from using the same program to instruct both sexes and integrating some training units to using different programs of instruction and providing separate training. The costs associated with gender integration have been low. In fact, the Army is the only service that has incurred expenses to accommodate gender-integrated basic training, spending about \$67,000 to modify barracks. No staffing or curriculum changes have been made to accommodate integrated basic training. Studies of the impact of gender-integrated units have been done for the Navy and the Army. A 1993 study done for the Navy reported no impact on objective performance measures and improvement in teamwork measures for both men and women training in gender-integrated units. A recent Army study found that the performance of women improved in gender-integrated training units while the performance of men was not degraded. Although the Army introduced limited gender-integrated basic training in the late 1970s and early 1980s, the Army has no records from that period to compare with its current program.

Defense Health Care:

New Managed Care Plan Progressing, but Cost and Performance Issues Remain

GAO/HEHS-96-128, June 14 (20 pages).

The Defense Department's (DOD) health care system, which costs \$15 billion annually, is undergoing sweeping reform. Through TRICARE, its new managed health care program, DOD is trying to improve access to care among its 8.3 million beneficiaries while containing costs. How well DOD implements and operates TRICARE may define and shape military medicine for years to come. Because of TRICARE's complexity, scale, and impact on beneficiaries, GAO reviewed the program, focusing on (1) whether DOD's experiences with early implementation yielded the expected results, (2) how early outcomes may affect costs, and

(3) whether DOD has defined and is capturing data needed to manage and assess TRICARE's performance. GAO concludes that despite initial confusion among beneficiaries arising from marketing and education problems, as well as problems with the compatibility of computer systems, early implementation of TRICARE is progressing consistent with congressional and DOD goals. However, the success of DOD's efforts to implement resource-sharing agreements and utilization management is critical to containing health care costs. DOD also needs to gather enrollment and performance data so that it and Congress can assess TRICARE's success in the future.

Navy Aviation:

F/A-18E/F Will Provide Marginal Operational Improvement at High Cost

GAO/NSIAD-96-98, June 18 (98 pages).

With a projected total cost of \$63 billion, the Navy's program to modernize its fleet of F-18 tactical aircraft ranks among the most costly of military aviation projects. Yet the planned F/A-18E/F will deliver only marginal operational improvements over the current F/A-18C/D model. The operational deficiencies in the F/A-18C/Ds that the Navy cited as a justification for developing the F/A-18E/F either have failed to materialize or can be corrected with nonstructural changes to the C/D. Furthermore, E/F operational capabilities will be only slightly better than those of the C/D model. Given the expense and the marginal improvements in operational capabilities that the F/A-18E/F would provide, GAO recommends that the Pentagon reconsider the decision to produce the F/A-18E/F aircraft and, instead, consider procuring additional F/A-18C/Ds. The number of F/A-18C/Ds that the Navy would ultimately need to buy will depend on when the next generation strike fighter becomes operational and the number of those planes the Navy decides to purchase.

Electronic Warfare:

Navy's New Radar Warning Receiver Needs More Testing

GAO/NSIAD-96-68, June 20 (11 pages).

The Navy plans to begin low-rate production of new radar warning receivers despite serious flaws in two earlier versions and performance problems that surfaced during testing of the latest version. The receivers developed under the ALR-67(V)3 radar receiver program are designed to

sense the signals from hostile radars, provide an audio warning to the pilot, and display the warning information on a video screen in the cockpit. GAO concludes that the Navy risks acquiring a deficient system that may require expensive changes if the receivers are to effectively alert pilots to radar-controlled enemy weapons.

**Defense Ammunition:
Significant Problems Left Unattended Will Get Worse**

GAO/NSIAD-96-129, June 21 (92 pages).

The Defense Department (DOD) has poorly managed its huge stockpile of ammunition—a legacy of the Cold War and Operation Desert Storm. Of an \$80-billion inventory, an estimated \$31 billion worth of conventional ammunition, explosives, and missiles were surplus. Much of this was old and unusable. For some types of ammunition, the military had more than 50 times its stated needs. The massive quantities of ammunition that were returned to the stockpile as a result of closed military bases in Europe and the end of the Persian Gulf War—combined with decreases in budgets, staff, and storage space—have severely taxed the military's ability to manage the ammunition inventory. Managers have difficulty (1) identifying ammunition beyond what is needed for the military's stated requirements, (2) sharing excess ammunition with military services that may need it, and (3) disposing of excess ammunition that it no longer makes sense to retain. In addition, ammunition inspections and tests have fallen so far behind that the military cannot guarantee the usability or readiness of the stockpile.

**Operational Support Airlift:
Analysis of Joint Staff Estimate of Military Wartime Requirements**

GAO/NSIAD-96-157, June 21 (six pages).

Operational support aircraft are used to meet short notice, generally smaller cargo and passenger requirements that cannot be met by regularly scheduled tactical resupply aircraft. A study by the Joint Chiefs of Staff found that the joint wartime requirement for operational support aircraft is 391 planes, or about 100 less than the fleet in existence at the time of the study. In response to a congressional request that GAO determine if the requirement for 391 aircraft was excessive, this report (1) recalculates the Joint Staff's estimate using the same computerized model and

(2) determines how changes in the flight frequency assumptions affected the calculation of aircraft requirements.

**Bottom-Up Review:
Analysis of DOD War Game to Test Key Assumptions**

GAO/NSIAD-96-170, June 21 (19 pages).

This report, an unclassified version of an earlier classified GAO report, reviews the objectives, methodology, and results of the Pentagon's war game Nimble Dancer, which assessed the ability of the U.S. armed forces to fight and win two nearly simultaneous major regional conflicts. GAO also discusses the assumptions and data used in Nimble Dancer relating to several areas, such as readiness, threat, and force availability. GAO provides its observations on the objectives, methodology, and results of the exercise. It also provides details on specific areas of interest.

**Environmental Compliance:
Continued Need for Guidance in Programming Defense
Construction Projects**

GAO/NSIAD-96-134, June 21 (20 pages).

Since GAO last reported on this subject in 1993 (GAO/NSIAD-94-22), the military services have tried to improve the manner in which they program and prioritize environmental compliance construction projects. However, Defense Department (DOD) policy still does not specify how the military services should report costs for environmental compliance construction projects and how they should decide which appropriation account should provide the funds. Consequently, the military services and the Defense Logistics Agency continue to differ in how they classify and prioritize projects and how they determine their source of funding. These inconsistencies and lack of guidance inhibit congressional oversight and DOD program management. DOD's estimates for fiscal year 1997 environmental compliance construction requirements fell from \$257 million in February 1995 to \$84 million in April 1996. Because of the lack of a uniform approach to categorizing these projects, GAO cannot determine the precise reasons for this drop in funding.

**Contingency Operations:
Update on DOD's Fiscal Year 1995 Cost and Funding**

GAO/NSIAD-96-184BR, June 27 (22 pages).

During fiscal year 1995, the Defense Department (DOD) participated in contingency operations around the globe, including Haiti, Southwest Asia, and the former Yugoslavia. To help cover the incremental costs of these operations, Congress provided DOD with a supplemental appropriation. In an earlier report (GAO/NSIAD-96-121BR), GAO found that although DOD ended fiscal year 1995 with supplemental funding of \$12 million above its reported incremental costs, some of the military services and defense agencies had reported costs that exceeded their supplemental appropriations while other services had reported costs below their supplemental appropriations. GAO also indicated that costs surged in September 1995. This briefing report provides information on (1) how the services that reported costs in excess of supplemental funding covered their shortfalls and (2) why the surge occurred.

**Weapons Acquisition:
Warranty Law Should Be Repealed**

GAO/NSIAD-96-88, June 28 (44 pages).

Requiring the use of warranties in weapon system acquisitions is impractical and provides the government with few benefits. GAO estimates that the military spends about \$271 million each year on weapon system warranties, which return only about five cents for every dollar spent. Congress expected warranties to improve weapon system reliability by providing a mechanism to hold contractors liable for poor performance. In practice, however, warranties have proved an expensive way for the Defense Department (DOD) to resolve product failures with contractors. The government has traditionally self-insured because its large resources make protection against catastrophic loss unnecessary. Further, it is often the sole buyer for a product and cannot share the insurance costs with other buyers. Because a contractor cannot allocate the cost of insuring against the risk of failure among multiple buyers, DOD ends up bearing the entire estimated cost. Moreover, DOD program officials said that warranties do not motivate contractors to improve the quality of their products. GAO believes that the warranty law should be repealed and the decision to obtain a warranty should be left to the program manager.

**Acquisition Reform:
Regulatory Implementation of the Federal Acquisition
Streamlining Act of 1994**

GAO/NSIAD-96-139, June 28 (80 pages).

The Federal Acquisition Streamlining Act of 1994 contained more than 200 sections changing the laws governing how agencies acquire nearly \$200 billion worth of goods and services annually. The act sets deadlines for publishing proposed and final implementing regulations, prescribes a minimum 60-day period for public review and comment on proposed regulations, and requires the drafters of such regulations to make every effort to ensure that regulations are concise and understandable. This report (1) determines whether all regulations necessary to implement the act were published in accordance with the act's requirements and (2) describes the efforts made to make the regulations concise and understandable.

**Acquisition Reform:
Military-Commercial Pilot Program Offers Benefits but
Faces Challenges**

GAO/NSIAD-96-53, June 28 (20 pages).

Faced with substantial funding cuts for defense procurement, the Pentagon has made acquisition reform a top priority. The challenge for the Defense Department (DOD) is to maintain technological superiority and ensure a strong national industrial base while reducing acquisition costs. The need to reform the military's acquisition system is well known; however, acquisition reform has been an elusive goal. DOD has on several occasions tried to introduce a commercial-style procurement system that would take advantage of commercial products and processes and, whenever possible, eliminate contracting, technical, and accounting requirements that are unique to the military. According to DOD, acquisition reform could cut costs by as much as 30 percent. This report discusses a pilot program, known as "Military Products From Commercial Lines," set up by the Air Force with one of its contractors. GAO evaluates the pilot program to determine (1) its potential for producing the benefits sought through reform and (2) any barriers to achieving these benefits.

**Combat Air Power:
Assessment of Joint Close Support Requirements and Capabilities
Is Needed**

GAO/NSIAD-96-45, June 28 (36 pages).

During the next six years, the military plans to spend more than \$10 billion on aircraft and other weapons to bolster its already formidable close support capabilities. This effort, however, comes at a time of shrinking defense budgets, defense downsizing, and increasing questions about the affordability of defense modernization. This report (1) discusses the overall capabilities of the military services to provide close support and the extent to which those capabilities continue to be modernized and enhanced and (2) evaluates the processes that the Defense Department uses to assess mission needs, capabilities, and modernization proposals for the close support mission.

**Precision-Guided Munitions:
Acquisition Plans for the Joint Air-to-Surface Standoff Missile**

GAO/NSIAD-96-144, June 28 (22 pages).

The Air Force and the Navy are developing the joint air-to-surface standoff missile to attack—day or night—high-value, well-defended targets while allowing the launch aircraft to remain outside the range of enemy defenses. This report discusses (1) the Air Force's plan to use a new acquisition process that balances capability and affordability requirements for acquiring the missile, (2) schedule and cost risks because of the immaturity of essential technology and the complexity of integrating the missile with multiple aircraft, (3) the Air Force's plan to acquire 35 pilot production missiles early in development that may not be needed, and (4) the need to strengthen the Navy's commitment to the program.

**Wartime Medical Care:
Personnel Requirements Still Not Resolved**

GAO/NSIAD-96-173, June 28 (10 pages).

Since 1994, the Defense Department (DOD) and the military services have produced several estimates of wartime medical personnel requirements. The National Defense Authorization Act of 1996 requires GAO to study the reasonableness of the models each military service uses to determine

appropriate wartime medical personnel force levels. DOD recently embarked on, but has yet to complete, another major wartime medical requirements study. This study is expected to modify the data contained in the service models and is intended to produce a unified DOD position on medical requirements. This report addresses the service models' results, their methodologies, and their inclusion of active duty and reserve medical personnel. A separate report will examine DOD's updated wartime medical requirements study and, to the extent needed, address any remaining issues associated with the service models.

Testimony

Combat Air Power: Joint Mission Assessments Needed Before Making Program and Budget Decisions, by Richard Davis, Director of National Security Analysis Issues, before the Subcommittee on Military Research and Development and Military Procurement, House Committee on National Security. GAO/T-NSIAD-96-196, June 27 (15 pages).

Despite shrinking defense budgets and the diminished threat posed since the collapse of the Soviet Union, the Defense Department (DOD) continues to add new planes to its fleet of combat aircraft without having assessed its existing capabilities or the areas that would benefit most from improvements in air power. DOD needs to seek the greatest value in its investment given the projections for future defense spending. The question is whether, in the post-Cold War era, the United States needs, or can afford, the current levels of overlap in air power capabilities. DOD requires better information to decide how to prioritize competing programs, whether programmed investments should continue to be funded, and whether new investments should be made.

Natural Resources

National Park Service: Information on Special Account Funds at Selected Park Units

GAO/RCED-96-90, May 17 (26 pages).

The national park system, which is run by the Park Service, manages nearly 370 units, including parks, monuments, and historic sites. In addition to annual appropriations, individual parks are allowed to keep money from in-park activities and accept other benefits from park support groups or concessioners. The funds going to the parks from these activities are not always subject to the annual congressional appropriations process. This report discusses (1) the sources and amounts

of special account funds available throughout the Park Service system and, for a sample of parks, the amount of special account funds that were available to each of them and (2) whether the expenditures of funds in special accounts were consistent with the purposes for which those accounts were established.

**Public Timber:
Federal and State Programs Differ Significantly in
Pacific Northwest**

GAO/RCED-96-108, May 23 (16 pages).

The Bureau of Land Management and the Forest Service manage 12.5 million acres of timberland in Oregon and Washington. This acreage accounts for nearly 38 percent of the available timberland in those states. In recent years, the volume of timber sold and harvested from these federal timberlands has fallen because of increased efforts to protect habitat for threatened and endangered species and to achieve a better balance of multiple resource uses. The costs of federal timber sale programs have not decreased proportionately, however, and recent studies have suggested that some states run their timber sale programs at less cost than do federal agencies. This report compares the timber sale programs of the two federal agencies with those of the states. GAO identifies (1) the major differences among the timber programs of the Forest Service's Pacific Northwest Region, the Bureau of Land Management, and Oregon and Washington and (2) the effect of these differences on the agencies' planning processes.

**Water Quality:
A Catalog of Related Federal Programs**

GAO/RCED-96-173, June 19 (64 pages).

This catalog provides information on federal programs and initiatives to help states, municipalities, and individuals protect and improve surface and groundwater threatened by pollution. GAO identifies 72 federal programs and initiatives that either directly or indirectly support water quality protection and enhancement. According to agency estimates, at least \$4.6 billion was spent on these programs in fiscal year 1995.

Testimony

Federal Land Management: Streamlining and Reorganization Issues, by Michael Gryskowiec, Director of Planning and Reporting in the Resources, Community, and Economic Development Division, before the Senate Committee on Governmental Affairs. GAO/T-RCED-96-209, June 27 (15 pages).

The responsibilities of the four major federal land management agencies—the National Park Service, the Bureau of Land Management, the Fish and Wildlife Service, and the Forest Service—have become more similar and the management of federal lands more complex over time. These changes, as well as budgetary and ecological considerations, suggest a basis for reexamining the current approach to federal land management with an eye to improving its efficiency and effectiveness. Two basic strategies have been proposed to improve federal land management. One would streamline the existing structure by coordinating and integrating functions, programs, and field locations. The other would reorganize the structure mainly by combining agencies. Although it is unclear which strategy would be more effective, or whether a combination of the two would be more appropriate, the effective implementation of either strategy will require a solid consensus for change and the creation of identifiable goals for managing commodity and noncommodity uses.

Tax Policy and Administration

Tax Research: IRS Has Made Progress but Major Challenges Remain

GAO/GGD-96-109, June 5 (66 pages).

The Internal Revenue Service (IRS) is changing its tax compliance philosophy. Although it will continue to use audits to catch tax cheats, IRS is exploring methods other than enforcement to induce compliance, such as assistance and education. This new approach involves researching ways to improve compliance for specific market segments—groups of taxpayers who share characteristics or behaviors. The agency wants to boost total compliance to 90 percent by 2001 and believes that its new compliance research approach will help meet this goal. Taxpayer compliance in paying taxes owed has remained steady during the past 20 years at about 87 percent, and IRS estimates tax losses from noncompliance at more than \$100 billion. This report (1) reviews the lessons IRS has learned from past compliance efforts in identifying factors most critical to the success of its new compliance research approach and (2) analyzes the status of the new approach and its ability to incorporate these factors.

Testimony

Tax Administration: Issues in Classifying Workers as Employees or Independent Contractors, by Natwar M. Gandhi, Associate Director for Tax Policy and Administration Issues, before the Subcommittee on Oversight, House Committee on Ways and Means. GAO/T-GGD-96-130, June 20 (21 pages).

To determine the social security and unemployment taxes they need to pay on employee wages, employers must classify workers as employees or independent contractors. The Internal Revenue Service (IRS) estimates that about 750,000 of the more than 5 million employers (15 percent) misclassified 3.4 million employees as independent contractors in 1984. Factors such as costs and confusion can contribute to misclassification. This testimony highlights the main points raised in GAO work dating back nearly 20 years on the proper classification of workers.

Transportation

Emergency Relief: Status of the Replacement of the Cypress Viaduct

GAO/RCED-96-136, May 6 (24 pages).

The Loma Prieta earthquake struck northern California in October 1989, causing severe damage to the San Francisco and Oakland area. In Oakland, the earthquake caused a two-tiered portion of Interstate 880 known as the Cypress viaduct to collapse, killing 42 people. Because the viaduct was a key part of the area's transportation system, its destruction resulted in severe congestion, mobility problems, and financial losses. Six and one-half years after the earthquake, the replacement of the viaduct is still not complete. This report discusses the (1) status of construction, expected completion date, and reasons for any delays; (2) estimated cost of the project and reasons for any cost growth; and (3) guidance governing the Federal Highway Administration's use of emergency relief funds.

Transportation Infrastructure: Central Artery/Tunnel Project Faces Continued Financial Uncertainties

GAO/RCED-96-131, May 10 (31 pages).

At a cost of more than \$1 billion per mile, the Central Artery/Tunnel project—an Interstate Highway System project in Boston, Massachusetts—ranks as one of the largest, most complex, and expensive

highway construction projects ever undertaken. About \$4.7 billion in federal and state money has been obligated so far, but this amount is less than half of the more than \$10 billion that will likely be needed to complete the project. To date, about 86 percent of the funding for the Central Artery/Tunnel project has come from federal sources. This report evaluates (1) the estimated total cost of the Central Artery/Tunnel project and (2) the plans of the Commonwealth of Massachusetts for financing it.

**Los Angeles Red Line:
Financing Decisions Could Affect This and Other Los Angeles
County Rail Capital Projects**

GAO/RCED-96-147, May 14 (19 pages).

The federal government has agreed to pick up the tab for about half of the \$5.5 billion in final design and construction costs for the Red Line subway project in Los Angeles. The 23.4-mile Red Line project consists of three segments, which are in varying states of completion. This report reviews (1) the project's estimated cost and (2) the Los Angeles County Metropolitan Transportation Authority's financing plans. GAO also provides information on the Federal Transit Administration's oversight of the project's quality control and quality assurance practices.

**Mass Transit:
Actions Needed for the BART Airport Extension**

GAO/RCED-96-176, May 31 (53 pages).

The Bay Area Rapid Transit District (BART) intends to spend more than \$1.1 billion, including \$750 million in federal funds, to extend mass transit services to the San Francisco International Airport. Controversy over the project, which centers on concerns over the project's environmental impact and cost, has resulted in two redesigns of the project since 1992. Before the Federal Transit Administration (FTA) can provide BART with the requested funds, FTA must ensure that BART complies with federal environmental laws and develops a viable financing plan. This report describes (1) the actions that FTA must take before agreeing to fund the project; (2) the project's current schedule and estimated cost and the factors that could affect them; and (3) the project's finance plan, including assumptions that could affect its viability.

**Northeast Rail Corridor:
Information on Users, Funding Sources, and Expenditures**

GAO/RCED-96-144, June 27 (41 pages).

The Northeast Corridor—the 460-mile railway route between Washington, D.C., and Boston—serves more than 100 million passengers each year and is a transportation linchpin for eight states and the District of Columbia. From 1988 through 1993, Amtrak and other users spent \$3 billion to maintain tracks, signal systems, and stations; dispatch trains; and make capital improvements to commuter and high-speed operations. Despite these outlays, the corridor's infrastructure has deteriorated, and Amtrak estimates that about \$2.7 billion is needed to bring the corridor up to a state of good repair. This report describes the (1) relative use of the corridor by Amtrak and the commuter and freight railroads, (2) sources of funding to operate and maintain the corridor, and (3) annual funding required to keep the corridor's infrastructure in a good state or repair and continue capital improvements at their historical rate.

**Human Factors:
Status of Efforts to Integrate Research on Human Factors Into
FAA's Activities**

GAO/RCED-96-151, June 27 (25 pages).

Human error has been a factor in about 80 percent of all fatal airplane crashes, according to the Federal Aviation Administration (FAA). The study of human factors, which tries to reduce the chances for human error through better design of equipment and procedures and improved training of pilots, air traffic controllers, and others, has emerged as one of the most promising ways to improve aviation safety. This report describes FAA's (1) organizational structure for incorporating the consideration of human factors in the agency's acquisition of new systems and operation of other systems and (2) aviation research on human factors, including FAA's processes for identifying research issues, and methods for allocating and coordinating resources for internal and external research on human factors.

Veterans Affairs

Veterans' Compensation: Evidence Considered in Persian Gulf War Undiagnosed Illness Claims

GAO/HEHS-96-112, May 28 (13 pages).

More than 700,000 men and women served in the Middle East during the Persian Gulf War. Some of these veterans began experiencing symptoms, such as fatigue, weight loss, and skin conditions, that could not be diagnosed or associated with a specific illness. Congress passed legislation in 1994 allowing the Department of Veterans Affairs (VA) to pay compensation to veterans for undiagnosed illnesses connected to their service during the Persian Gulf War. As of July 1995, VA had denied nearly 95 percent of the 4,144 claims that it had processed for Persian Gulf veterans claiming such disabilities. In response to congressional concerns about the high denial rate, GAO reviewed the procedures VA used to process Persian Gulf War undiagnosed illness claims. This report discusses (1) the evidence standards that VA has established to process Persian Gulf claims, (2) the evidence in the claim files that VA considered in reaching its decisions, and (3) VA's reporting of the reasons for denial.

Testimony

VA Health Care: Opportunities to Reduce Outpatient Pharmacy Costs, by David P. Baine, Director of Health Care Delivery and Quality Issues, before the Subcommittee on Hospitals and Health Care, House Committee on Veterans' Affairs. GAO/T-HEHS-96-162, June 11 (17 pages).

The Department of Veterans Affairs (VA) allows its doctors to prescribe over-the-counter products because concerns have been raised that some veterans may lack the money to buy needed items. VA requires prescriptions as a way to control veterans' access to over-the-counter products in VA pharmacies. In fiscal year 1995, for example, VA pharmacies dispensed analgesics, such as aspirin and acetaminophen, nearly 3 million times. The benefits package that most VA facilities offer for over-the-counter products is more generous than that available from other health plans. VA also provides other features, such as free over-the-counter product mail service and deferred credit for copayments owed, that are not common in other plans. GAO makes several suggestions for reducing the amount of money VA spends to dispense over-the-counter products. First, VA staff could more strictly adhere to statutory eligibility rules. Second, VA could more efficiently dispense over-the-counter products and collect copayments. Third, VA facilities could further reduce the number of

over-the-counter products available to veterans on an outpatient basis. Finally, Congress could expand copayment requirements.

Veterans' Health Care: Challenges for the Future, by David P. Baine, Director of Health Care Delivery and Quality Issues, before the Subcommittee on Hospitals and Health Care, House Committee on Veterans' Affairs. GAO/T-HEHS-96-172, June 27 (25 pages).

With a budget of \$16.6 billion and a network of hundreds of hospitals, outpatient clinics, and nursing homes, the Department of Veterans Affairs' (VA) health care system provides medical services to more than 26 million veterans. VA is seeking to fundamentally change the way in which it runs its health care delivery and financing systems. It is also seeking authority to significantly expand eligibility for health care benefits and to both buy health care services from and sell health services to the private sector. This testimony discusses (1) changes in the veterans population and the demand for VA health care services; (2) how well the existing VA system, and other public and private health benefits programs, meet the health care needs of veterans; (3) steps that could be taken using existing resources and legislative authority to address veterans' unmet health care needs and increase equity of access; (4) how other countries have addressed the needs of an aging and declining veteran population; and (5) approaches for preserving VA's direct delivery system, alternatives to preserving the direct delivery system, and combinations of both.



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